

Message Text

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47

ACTION EUR-25

INFO OCT-01 ISO-00 EURE-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-20

STR-08 CEA-02 SCEM-02 INT-08 SCI-06 L-03 H-03 PA-04

PRS-01 USIA-15 TAR-02 DRC-01 DODE-00 PM-07 /194 W

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P R 191917Z DEC 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 9384

INFO CINCEUR VAIHINGEN

CINCUSAFE RAMSTEIN

CINCUSAREUR HEIDELBERG

USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY DUBLIN

AMEMBASSY COPENHAGEN

AMEMBASSY LUXEMBOURG

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION BERLIN

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E.O. 11652: N/A

TAGS: EFIN, ECON

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SUBJECT: SHIFT TOWARD MORE EXPANSIONARY ECONOMIC

POLICY

REF: BONN 6746, BONN 17530

1. THE CABINET ACTED TODAY TO RELAX ANTI-INFLATIONARY POLICY. ECONOMICS MINISTER FRIDERICHs ANNOUNCED THAT THE CHANGE IN POLICY SHOULD NOT BE INTERPRETED AS AN EXPANSIONARY MOVE. THE CABINET INTENDS TO COUNTERACT THE CLEAR SLOWDOWN IN ECONOMIC ACTIVITY WHICH HAS OCCURRED SINCE THE COUNTER-CYCLICAL PROGRAM WAS ANNOUNCED IN MAY, WITHOUT ADDING TO INFLATIONARY PRESSURE (SEE BONN 6746). END SUMMARY

2. SPECIFIC MEASURES INCLUDE:

A) THE 11 PER CENT INVESTMENT TAX WILL BE DROPPED FOR ALL GOODS ORDERED AFTER NOVEMBER 30, 1973;

B) FIRMS WILL AGAIN BE ABLE TO DEPRECIATE CAPITAL GOODS AT A DECREASING RATE FOR TAX PURPOSES, BEGINNING AFTER NOVEMBER 30, 1973;

C) BEGINNING AFTER DECEMBER 31, 1973, PURCHASERS OF ONE- AND TWO-FAMILY DWELLINGS MAY AGAIN CLAIM ACCELERATED DEPRECIATION FOR TAX PURPOSES.

3. THE GOVERNMENT WILL NOT RESTRICT ITS INVESTMENT-TYPE OUTLAYS (AS IT ALLEGEDLY HAS THIS YEAR) IN 1974. DEFICIT SPENDING WILL ALMOST CERTAINLY RISE IN 1974, AS MORE RELAXED SPENDING POLICIES COMBINE WITH A SLOWER GROWTH IN TAX REVENUES. STILL ON THE MACRO-ECONOMIC SIDE, FINANCE MINISTER SCHMIDT STATED THAT THE GOVERNMENT SUPPORTS ADHERENCE TO THE CURRENT COURSE OF MONETARY POLICY, BUT RECOMMENDS THAT NO ACTION BE TAKEN TO PREVENT "MARKET FORCES" FROM LOWERING THE INTEREST RATE, SHOULD SUCH PRESSURES DEVELOP. SCHMIDT ALSO ANNOUNCED THAT THE GOVERNMENT WILL MOVE TO EASE (NOT ELIMINATE) BARDEPOT RULES (SEE BONN 17530), AND ANNOUNCED IT WILL ACT TO MAKE FINANCING OF IMPORTS EASIER.

4. CERTAIN ACTIONS OF A REGIONAL OR SECTORAL NATURE ARE ALSO UNDER WAY. THE GOVERNMENT WILL SEEK AN INCREASE IN CERTAIN TAX ADVANTAGES FOR THE COAL UNCLASSIFIED

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INDUSTRY AND WILL CANCEL THE RESTRICTIONS NOW IN FORCE ON ERP FUND SPENDING. RESTRICTIONS ON FEDERAL/STATE SPENDING ON JOINT VENTURES ARE ALSO TO BE CANCELLED, AND SPECIFIC INDUSTRIES WILL AGAIN BE ALLOWED PREFERENTIAL FINANCING TERMS THROUGH THE RECONSTRUCTION LOAN CORPORATION. FURTHER JOINT FEDERAL/STATE/MUNICIPAL ACTION TO PROVIDE AID TO SPECIFIC INDUSTRIES IS AND WILL CONTINUE TO BE UNDER

CONSIDERATION (ESPECIALLY FOR MIDDLE-SIZED FIRMS).

5. IN A DIRECT ENERGY CONSUMPTION SAVINGS MEASURE, THE GOVERNMENT ANNOUNCED THAT BEGINNING JANUARY 19 THERE WOULD BE A DRIVING BAN FROM 4:00 P.M. SATURDAY UNTIL 3:00 A.M. MONDAY. THE BAN IS TO APPLY ON ALTERNATE WEEKENDS TO CARS WITH EVEN NUMBERED LICENSE PLATES AND ON THE OTHER WEEKENDS TO CARS WITH ODD NUMBERED PLATES. THE GOVERNMENT SAID IT HOPED BY THIS MEASURE TO OFFSET THE PREDICTED 11 PERCENT SHORTFALL IN GASOLINE FOR JANUARY. THE DURATION OF THIS WILL BE DETERMINED BY THE SUPPLY SITUATION IN THE COMING MONTHS.
HILLENBRAND

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